LSEG STREETEVENTS

EDITED TRANSCRIPT

ACM.N - Q4 2026 AECOM Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Hello, everyone. Thank you for joining us and welcome to AECOM's fourth quarter 2026 earnings conference call. After today's prepared remarks, we will host a question-and-answer session.

(Operator Instructions) I will now hand the conference over to Will Gabrielski, Senior Vice President of Finance and Investor Relations. You may begin.

Will Gabrielski - *AECOM - Senior Vice President, Investor Relations Contact*

Thank you, operator. I would like to direct your attention to the safe harbor statement on page one of today's presentation. Today's discussion contains forward-looking statements about future business and financial expectations.

Actual results may differ significantly from those projected in today's forward-looking statements due to various risks and uncertainty, including the risks described in our periodic reports filed with the SEC. Except as required by law, we undertake no obligation to update our forward-looking statements. We use certain non-GAAP financial measures in our presentation.

The appropriate GAAP reconciliations are incorporated into our materials, which are posted to our website. Growth rates are presented on a year-over-year basis unless otherwise noted. Any references to segment margins or segment adjusted operating margins will reflect the performance for the Americas and International segments.

When discussing revenue and revenue growth, we will refer to net service revenue or NSR, which is defined as revenue excluding pass-through revenue. NSR growth rates are presented on a constant currency basis unless otherwise noted. Today's remarks will focus on continuing operations.

Also, as a reminder, for the fiscal fourth quarter and the full year, our business was impacted by fewer workdays compared to the prior year's period. Accordingly, our discussion of NSR growth rates will adjust for this impact unless otherwise noted.

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On today's call, Troy Rudd, our Chief Executive Officer, will review key developments and accomplishments this quarter as well as our outlook for the business. Lara Poloni, our President, will discuss key trends across our markets and Gaurav Kapoor, our chief financial and operations officer, will review our financial performance and outlook in greater detail. We will conclude with a question-and-answer session.

With that, I will turn the call over to Troy.

Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

Thanks, Will, and thank you all for joining us today to review our financial results and key strategic priorities. We had several accomplishments in fiscal 2026 that give us confidence in the business, highlighted by record wins, backlog and fourth quarter margins. Before discussing our performance in greater detail, I want to provide an update on the two construction management projects we discussed last quarter.

I'm pleased to report these projects are on track with the delivery timelines and budgets communicated previously, including having achieved substantial completion on the first phase of one project in the first quarter of fiscal 2027. We expect delivery of the second project near the end of the second fiscal quarter.

I want to reiterate that the risk profile of these projects, which were bid and won many years ago, differs significantly from the rest of the business. For the past six years, we have transformed the backlog of our CM business, and there are no other projects in our backlog with similar risk exposures.

Beyond these projects, the construction management business is performing exceptionally well. Backlog increased 25% during the year. And we expect revenue growth to accelerate in the second half of fiscal 2027 and beyond, with several key projects ramping up as the year progresses.

Now turning to our performance, a few highlights stand out. First, the benefits of our competitive advantages continue to be apparent. Our win rates set a new all-time high this year and many of our wins feature duration spending several years, which further extends our growth visibility.

As a result, our backlog increased by 13% during the year, and our full year book-to-burn was very strong at 1.3 times. Second, reflecting strong trends across our markets and backlog, design growth accelerated to 6% in the fourth quarter. Third, we continue to expand our industry-leading margins, delivering a new all-time high adjusted EBITDA margin of 19.2% in the fourth quarter, up 170 basis points over the prior year.

This expansion reflects the benefits of our strategic investments and strong execution across the business. Finally, free cash flow exceeded our expectations for the year. Reflecting the strength of our balance sheet and our expectations for strong cash flow, our Board of Directors approved a 10% increase in the quarterly dividend. We have now grown our dividend at an 18% CAGR. Since initiation, demonstrating our continued commitment to shareholder returns. During the year, we also made great progress on our strategic initiatives, including our investments in advisory and technology or AI.

Starting with technology, our investments are helping transform how we deliver work and extend our competitive advantage while demonstrating greater value to clients on their projects. Importantly, our business has already realized benefits from these investments.

This includes some of our largest wins this past year, as shown by our nine-figure Scottish Water Engineering win and a recompete win with an energy client earlier this year, where our book of business with this client went up five-fold. A large component of our success on these wins was built on the technology we delivered to these clients today, and the roadmap of what we're working on for tomorrow.

In addition, our pipeline of opportunities is increasing as new clients not only benefit from our technology on their existing projects, but are also bringing us into a greater breadth of work. Next, our strategy to grow the advisory business continues to bear fruit.

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We are expanding our addressable market along with increasing our win probability by filling a void in the market with our domain and technical-led expertise, which elevates our role with clients. In fact, advisory was one of the fastest growing businesses within AECOM in fiscal 2026, and we expect to hire aggressively to continue to drive this growth.

Concluding with our financial guidance. Today, we provide our initial outlook for fiscal 2027 where we forecast NSR growth of 4% to 6% along with continued adjusted EBITDA and adjusted EPS growth to $1.37 billion. And $6.25 at their respective midpoints. Our growth is driven by our backlog and strong end markets where we have number one ranked practices.

Additionally, we expect another year of expansion in our industry-leading margins. Gaurav will share more on this in a moment. Taken together, we believe AECOM is well positioned to create lasting value for our clients, and communities and our shareholders.

With that, I will turn the call over to Lara.

Lara Poloni - *AECOM - President*

Our robust backlog demonstrates that our investments in our strategy are generating strong returns. Our wins were broad-based across our markets and geographies, and there are a number of positive trends that are supportive of our growth. This is apparent in our Americas Design business where our backlog is at a record level, and our pipeline has grown at a double-digit rate for a fifth consecutive quarter.

One key driver of our growth was transportation. As an example of our momentum, we were selected for two of the largest transportation capital programs ever undertaken by their respective state departments of transportation. These awards in Q4 and the current quarter reflect our technical leadership and the continued priority our clients are placing on modernizing critical infrastructure.

Looking ahead, the US market environment remains healthy, and we are optimistic the new Congress will create additional growth opportunities, which we are poised to capitalize on. This includes work to advance the surface transportation reauthorization, where we continue to expect bipartisan support for the next five-year bill.

In the meantime, more than half of the IIJA funding available to our markets has yet to be spent. While political transitions can cause some short-term uncertainty, we have managed through these cycles many times and have delivered consistent growth through these periods. Infrastructure more broadly also maintains strong support from politicians and voters alike.

Just this month, US voters approved billions in state and local transportation ballot measures by two to one margins on average. The Government of Canada also recently released its 2026 federal budget, which continues to reflect a commitment to long-term investment in infrastructure.

And just as important, governments in the US and around the world are pursuing permitting reforms and other measures intended to accelerate investment. We are seeing similarly positive trends in water and energy. In the UK, energy was a very strong contributor as our work on the great grid upgrade, the largest grid infrastructure investment in the country's history, continues to progress as expected.

Growth in our water business is also accelerating with increasing engagements from clients tied to the AMP 8 cycle. In Australia, strong water and defense investment provides for large, durable programs where our scale, technical capabilities and client relationships position us well to deliver continued growth.

In addition to a strong long-term growth outlook in our core markets, we are also prioritizing investment in key end markets with outsized growth potential. A great example is the substantial opportunity we see to help private capital move into infrastructure. Through our advisory business, we can help investors identify, accelerate, and de-risk projects while creating opportunities for our broader design capabilities.

We are also investing to expand in markets where clients are advancing large capital investment programs in which strategic partners like us are competitively advantaged, such as in aviation and energy. Across these markets, the common thread is our ability to bring deep

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domain expertise, trusted client relationships and technology to help clients plan, fund and deliver increasingly complex infrastructure programs. This is extending our competitive advantages and creating a larger higher value addressable market for AECOM.

With that, I'll turn the call over to Gaurav.

Gaurav Kapoor - *AECOM - Chief Financial, Operations Officer*

Thanks, Lara. We delivered strong results during the year despite some unexpected impacts in our markets, including the ongoing conflict in the Middle East, and a slower ramp on some of our larger construction management wins, which are on track to accelerate in the second-half of fiscal 2027.

Importantly, we exited the year with a great deal of momentum. In the fourth quarter, we delivered 9% adjusted EBITDA growth and 20% adjusted EPS growth. Turning to our segment performance. In the Americas, design NSR increased 6% this quarter. The adjusted operating margin was 20.6%, up 20 basis points from the prior year.

In the fourth quarter, backlog in the design business was up high single digits as well as up sequentially, with the pipeline growing even faster. This positions us well for continued growth in fiscal 2027 and beyond. Turning to the International segment. NSR growth accelerated again this quarter, up 5%, led by ongoing strength in the UK and Australia.

The adjusted operating margin was 14.8%, which set a new quarterly record and was up 270 basis points. This performance reflects growth in our higher margin markets, improved utilization and initial returns on our strategic investments. Our International backlog growth also continues to be strong with several large wins this year, including a significant metro rail project in Ireland during the fourth quarter.

Turning to cash flow and capital allocation, we exceeded our prior free cash flow guidance for the year, reflecting underlying business performance. When combined with our strong balance sheet position with net leverage of 1.3 times, we are able to continue to operate with certainty.

As Troy noted, we increased our quarterly dividend by 10%, and we remain committed to double-digit annual growth in per share value of our dividend for the long-term. We will have additional capital allocation flexibility once the CM project headwinds subside near the end of the first half of fiscal 2027.

Importantly, our capital allocation priorities are unchanged and returns based. Over the past several years, we have bought back approximately $3 billion of stock and returned approximately $600 million in dividends. Now turning to our guidance. We expect net services revenue growth of 4% to 6% in fiscal 2027, excluding the CM charge in fiscal 2026 and supported by our book-to-burn of 1.3 times and strong backlog in pipeline.

For your modelling, there is no workday impact for the full year. We expect segment adjusted operating margin and adjusted EBITDA margin expansion to 17.6%. Our margins are benefiting from our overall growth, mix shift from growing our higher margin Advisory business, and benefits from our restructuring and technology investments.

Adjusted EBITDA is expected to increase to $1.37 billion at the midpoint and adjusted EPS is expected to increase to $6.25 at the midpoint. As always, this does not include any potential benefits from capital allocation actions not yet taken. Our tax rate is expected to be approximately 22% and consistent with prior years. We expect a lower rate in the first quarter.

We expect to deliver free cash flow of approximately $300 million, driven by healthy underlying performance consistent with our expectations for at least 100% free cash flow conversion. This is offset by approximately $500 million use during the year on the 2CM projects, which is consistent with the forecast we shared last quarter. In summary, our expectations for fiscal 2027 reflect strong NSR growth, record margins and continued earnings growth.

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With that, let's turn to Q&A, operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Sabahat Khan, Rbc Capital Markets.

Sabahat Khan - *RBC Capital Markets Inc - Analyst*

Thank you and good morning. Just wanted to start with the commentary you shared in materials about the ongoing projects. Sounds like they're on track with regards to the timing you shared before for kind of one this quarter and one the next. Maybe if we can detail what's been completed, what's remaining.

And maybe just sort of the update there on what's happened in the last few months since we last heard from you on him. Thank you.

Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

With respect to the first project, that project, I would describe it as this first phase is complete. We have delivered the asset to the customer, and the customer is spending a few weeks going through their testing with their tenants, and there is a planned opening for that asset in the very near future.

So the asset has been delivered, so there is no real update beyond that. There is a second phase to that project, which represents about 25% of the total work to be done on that asset. That work will start in the beginning of the new calendar year and will extend into fiscal '29.

And at this point, we have confidence based on our experience delivering the 75% of the scope of the project that that will be delivered successfully sort of on schedule and on budget. On the second project, that project is still ongoing and there is a lot of work to do, but if you remember, the work that we were doing was not the physical asset.

The physical asset is actually complete. The work that is ongoing really relates to all of the systems commissioning and testing and sign-off based on the critical work streams, and the way we measure them today, that they are on track with our original schedule and we believe that that will be delivered near the end of the second quarter, as I already stated.

I do want to make one other point about both of these projects, which is these are projects that the CM business and our teams have had a lot of experience in delivering. So this is the new asset type or something that we're not familiar with.

This is just we've had a couple of challenging situations that we've had to work our way through, but we certainly have confidence in delivering that and principally because these are assets that we have delivered that our teams have delivered in the past.

Sabahat Khan - *RBC Capital Markets Inc - Analyst*

Gaurav, on the guidance that you laid out, I think in the prepared comment, there was something about kind of the cadence between sort of earlier and later in the year. Would you be able to share some thoughts on how should we expect top-line and earnings to flow either through the quarters or the halves and then similarly, any commentary on the flow through of cash flow over the course of the year to get to the guidance range? Thanks.

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Gaurav Kapoor - *AECOM - Chief Financial, Operations Officer*

Good morning, Saba. Yeah, I'll take that question. So in terms of the cadence or the phasing throughout the year, overall from an earnings standpoint, the expectation should be consistent with our historical delivery as we phased earnings in first, second-half, including the quarter. There will be no change, significant change from that standpoint.

And when we look at NSR, it's a good question because as you recall, we had mentioned this last quarter as well, and we forecasted consistently. In the first half, our NSR is going to be burdened because our CM business, as it is pivoting off delivering some really large projects.

Right now, it is in the phase of what we call more agency work before the meat of our scope is delivered that those large projects are going to kickstart in the second half of the year. And we also have, even though for the year, there's no workday impacts, just in the first quarter, we do have about half a day of impact as well.

So when you look at the overall business, the design business, given the backlog growth, the CM business as well back significantly backlog growth, in the first half design business, and second-half is going to consistently going to deliver, but it will be tempered overall growth because of the CM business.

So there will be a ramp. I would say we're probably going to be at the low end of the range, maybe a little bit below low end of the range in the first quarter and it will ramp up from there. In regards to cash flow -- cash flow, if we take a normalized, which would have been approximately $800 million, what that represents is 100% conversion of our adjusted net income consistent with our long-term algorithm, but we are impacted in delivery of these two projects where we have said we're going to spend a little approximately $0.5 billion in cash.

When you look at the phasing of it, in a normalized year, we would deliver 15% to 20% of free cash flow in the first half of the year. Most of that $0.5 billion is going to be spent in the first and second quarter. So you should expect negative free cash flow for the first half of the year, and then our normal cadence of cash delivery will kick in Q3, Q4 to deliver a net free cash flow result of approximately $300 million.

And from a margins standpoint, I would say the delivery and the phasing is going to be very consistent to what you guys have seen last few years, including FY26. Between the first quarter and the second quarter, there generally is about 170 bps to 200 bps of differential, just given the number of workdays hours that are available,.

Therefore, our overhead cost and period costs are absorbed at a better clip in Q4, compared to Q1 and that consistently ramps up as well.

Sabahat Khan - *RBC Capital Markets Inc - Analyst*

Great. Thanks very much.

Operator

Adam Bubes, Goldman Sachs Group Inc.

Adam Bubes - *Goldman Sachs Group Inc - Analyst*

Hi. Good morning. I think the margin guidance implies roughly 60 basis points of margin expansion year-over-year. Can you just help us bridge that outlook, how much is coming from the increasing mix of advisory work versus restructuring in AI-driven productivity, and what are you embedding for AI investment costs in 2027?

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Gaurav Kapoor - *AECOM - Chief Financial, Operations Officer*

Adam, good morning. What I would say is the second part of your question in terms of AI investments, our investments continue to be consistent with what we spent in FY '26, so they're flat. However, as you recall, consistent what we had originally planned out, in FY27, we're already starting to see and we saw this in end of FY26, while we were able to deliver better margins than what we had planned.

We started to see a ramp in. In those margins. So when you look at it on a net basis, the AI investments are net neutral in FY27 consistent with what we had said. In terms of the margins, I would almost put that growth for FY27 into three different buckets.

One is our strategic investments, including our advisory business, will continue to uplift the enterprise margins because we're always have this focus of continuous improvement on our cost base, which will continue to deliver, that will provide you with a natural lift in organic margins.

And the third part outside of the AI, which we've already spoken about is continued focus on our EC delivery centers. We continue to ramp up our direct labor hours going through EC, which also provide a good uplift to our margins. So those are the different pieces leading to that 60 bps year-over-year. Increase.

Adam Bubes - *Goldman Sachs Group Inc - Analyst*

And then on AI, can you just update us on the rollout of AI tools across the portfolio? Which workflows are being impacted today? Any way to sort of quantify the early efficiency gains and as those productivity benefits start to materialize, are you seeing any changes in how clients are asking you to contract?

Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

So, let me sort of break this down into a couple of components of what we see in terms of the impact of our technology investment. First is we are seeing efficiencies that are resulting in improved margins -- and we started that process back in effectively the second quarter of this past year. And we started to see that improve over the course of the year.

But as we followed our development roadmap, as the development has become more robust and started to impact what we could actually deliver for our customers, it's not that we're focused on margin efficiencies or efficiencies, we are gaining those and those will continue to improve. But what we are seeing is actually a change.

I'll even call it a profound impact on how customers are seeing the value that we can provide to them from design. And so think about that as actually dramatically improving the outcomes or the returns on their infrastructure assets because of the way we're able to take technology and effectively partner with our teams of engineers working on those projects.

And so that, I mean, you can think about that as having an impact on margins, but we think of that actually at this point is starting to have an impact on our ability to win relationships, win projects, and actually through those new relationships actually with work that we hadn't done before even outside of engineering and design. So again, we're a year into this process. We're kind of working through our thoughtful roadmap of development and deployment. We've moved from efficiencies into demonstrating new value for our customers and winning work.

Adam Bubes - *Goldman Sachs Group Inc - Analyst*

Great. Thanks so much.

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Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

Thank you.

Operator

Andrew Wittmann, Robert W. Baird & Co Inc.

Andrew Wittmann - *Robert W. Baird & Co Inc - Analyst*

Oh, great. Thanks for taking my questions, guys. Good morning. I guess maybe I just want to build on that last question and talk about your outlook on margins. And certainly, the progress has been good since you've announced this plan. It looks like there's a little bit sharper ramp.

Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

I'm sorry, Andy, we're not hearing your question. Your line is breaking up.

Andrew Wittmann - *Robert W. Baird & Co Inc - Analyst*

I'm sorry about that. I'll try again.

Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

Maybe you can repeat the question, please.

Andrew Wittmann - *Robert W. Baird & Co Inc - Analyst*

I was wondering about the 2028 margin bridge. It feels like you're making good progress toward it, but it feels like there's still a decent ways to go. I recognize that the exit of '28 is the run rate for 20%. But I was just wondering what factors drive the out year, the '28 year, just a little bit more you're expecting then than you're realizing here at least in the '27 guidance?

Gaurav Kapoor - *AECOM - Chief Financial, Operations Officer*

Hey, Andy, thanks for the question. This is Gaurav. I'll take it. So you're right. In FY28, we've said we're going to exit at 20% plus. And to achieve that on an annualized basis, what that equates to in FY28 is approximately 18.6% margins. When we gave our guidance in FY26, our plan was at 16.6%. So if you just take a linear growth curve and say, are we on track or not.

You would have expected 100 bps of increase in margin for FY27 and then another 100 bps of increase in margins for FY28 to achieve that exit ramp we had laid out. The good news is we've achieved that for FY27. So again, planned FY26 was 16.6% margins. Our planned margins for FY27 are 17.6%, So it's exactly that linear 100 bps of increase we had committed to and we've now delivered.

And as in our history of operating in this management team for the last six years. We are appropriately focused on not only delivering on the commitments we put forth on the margins, but we make every effort during the year as we execute to do a little bit better, just like we did compared to plan versus actual delivery in FY26.

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So as we look sit back here, look at the strategic investments across the Board, as I laid out to the previous analyst questions on the different powers that are contributing to this margin expansion, we have a lot of confidence in exiting FY28 at 20-plus percent, and we don't see a sharp curve for the reasons I explained.

Andrew Wittmann - *Robert W. Baird & Co Inc - Analyst*

Hey, thank you. I just wanted to ask my follow-up question on the top-line then. Obviously, the backlog is up 13%. All year, it's been pretty steady good growth, and that's great. Your outlook, obviously, 4% to 6%. The organic, that's a difference, like the backlog is certainly much higher than the outlook.

And I guess you talked about longer duration awards, so maybe that explains it, but I was just wondering if there's any change in customer behavior in terms of time between award and the notice to proceed is changing. Certainly, we've talked to others in the industry where they have seen a little bit of that.

So I was just wondering if you could comment on that. And maybe, Lara, if you could talk about how the portion of next year's guidance or expected revenue is already under contract. Is it more booked this year than a typical year or is this more like a typical year? Thank you very much.

Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

Andy, I'll sort of confirm a few points that you already made for us. First of all is, we are winning work that is longer in duration, so larger projects and as we said, that does create more durability and visibility into long-term growth. So that is certainly part of the equation. The other thing is that we have over the course of this past year, we have seen.

A longer period of time for some of the larger projects in terms of award to actually beginning work, and if you think about this past year, we've seen that most significantly has been in the Middle East, but we have seen that across most of our business.

So I don't know if that's temporary or long-term, but what we have planned in the guidance this year is we have planned that based on the backlog that we've won and our pipeline, something similar in terms of conversion to our to our awards to turn it into deliverable work. And then the other important thing to point out is that, again, I think I already made this point, our construction management business, we spent many years repositioning that business.

As a result of that repositioning, we have very different looking backlog, but we have also seen a very significant increase in that backlog, and so in the guidance this year, certainly, the first half of the year is muted because the construction management business is not ramping up to revenue growth, but it is in the second-half of the year.

And so there are two very different periods. I think as you sort of look longer-term, you'd say, well, the construction management and the design business. If you didn't have this ramp up in our fiscal '27, that it would look a little bit better as you would move forward.

Andrew Wittmann - *Robert W. Baird & Co Inc - Analyst*

Thank you very much.

Operator

Sangita Jain, Keybanc Capital Markets Inc.

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Sangita Jain - *Keybanc Capital Markets Inc - Equity Analyst*

Thank you. If I can follow-up on the previous questions regarding margins and all the commentary Gaurav you've given so far, is it fair to assess that to get to the margin targets that you've laid out for 2029, would also imply that your NSR growth will trend towards the higher end of that 5% to 8% rate that you've given for this period?

Gaurav Kapoor - *AECOM - Chief Financial, Operations Officer*

Thanks for that question, Sangita. No, that's the simple answer. We're absolutely anticipating margin -- I'm sorry, NSR growth, especially with CM stabilizing in end of FY27 going into FY28. So our expectation given the overall backlog growth, the visibility we have in the duration as Troy just answered in the previous question.

It provides us good confidence in NSR FY '28, but as I also mentioned, all the strategic investments we're making, our advisory business, our focus on making sure we're leveraging EC to our maximum capacity and capability, our focus on cost continuous improvement culture, and the technology investments that we've made in terms of driving internal efficiency, all of those things will contribute.

And they're not directly linked to make sure that there is significant NSR growth to drive that margin expansion. So there's a lot of different blocks we have put in place, and that's why I say we have a lot of confidence and why we've delivered for the last six years industry-leading margins.

Sangita Jain - *Keybanc Capital Markets Inc - Equity Analyst*

Understood. Thank you for that, Gaurav. And then. Is there any update that you can provide on the dispute resolution for the challenged construction management project that you're pursuing and any kind of updated timeline on when we may hear more on those?

Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

The simple answer is it's going to take a long time for those disputes to be resolved. But I will point out that on one of the projects, there is a mechanism that allows us to sort of resolve individual differences along the way. And so we still are working through that process. It is slow, cumbersome and the amounts that you can dispute in that process are smaller.

But I will say that in that process, we have been very successful to date. So I think that again just sort of gives us confidence about the longer-term. But the simple answer to your question, is it's going to be a long time before we can resolve these matters.

Operator

Lauren Sullivan, UBS Securities LLC.

Lauren Sullivan - *UBS Securities LLC. - Analyst*

Hi. Good morning. Thanks for taking my question. Just first, in terms of the $500 million cash usage, could you just break down what's driving the cash intensity on those two projects in their final stages? Could this potentially be less or like any risk that could be more than that? Thanks.

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Gaurav Kapoor - *AECOM - Chief Financial, Operations Officer*

Hey, Lauren. Thanks for that question. This is Gaurav. I'll take it. The $500 million is on both of those projects, including completing the one large project we've talked about. And in terms of the detail, it's just the completion on those projects. There's not any more further detail we can provide on it.

Lauren Sullivan - *UBS Securities LLC. - Analyst*

Got it. Thank you. And then just from your CM customers, I was wondering if you were hearing anything about higher interest rates and inflation causing any project delays. And then what types of projects do you have the most confidence to ramp in the second-half of 2027?

Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

Yeah. So the answer to answer your first question, no, at this point, we're not hearing anything. And I would say that that goes even more broadly across the entire business. There are always exceptions to that, but it's not something that we're hearing from our customers nor is it a trend in the work that we have ongoing.

And then sort of think about the confidence in the projects is -- our confidence is, I would say, equal amongst all of the projects we have in backlog for a number of reasons. One is because they are very important pieces of infrastructure that drive pretty significant economic outcomes either for the individual private clients or for government organizations or communities.

And the other thing is that what we put into the backlog is supported by funding. If those projects are not funded, then we don't put unfunded elements into our backlog. So again, in terms of funding, and in terms of the importance of those projects, we have confidence in kind of everything that sits in our backlog today.

Operator

Michael Dudas, Vertical Research Partners LLC.

Michael Dudas - *Vertical Research Partners LLC - Analyst*

Good morning, gentlemen, Lara. To international business, I mean, your execution and the growth and the margin has been quite positive over the past few years. Maybe how can that momentum continue and is there any areas that are going to provide some more better opportunities or maybe ability to enhance those margins at a better rate?

And secondly, maybe in your federal business, remind us how much of your businesses with the US federal government and given the recent FAA issues that we saw last week and the IIJ you mentioned, your confidence on this new Congress and stuff coming, getting through on a bipartisan basis to maybe help the visibility in the infrastructure side going into 2018 and beyond.

Lara Poloni - *AECOM - President*

Thanks, Mike, for the question. It's Lara, I'll take that. With respect to the international performance, this was a really strong quarter from the various segments of international. We had 7% growth in both the UK business, really led by strong performance in our energy and water segments. We continue to have a really positive outlook for both of those.

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And also our Australia and New Zealand business grew by 7%. So that momentum and this next wave of infrastructure spending and the long-term positions, we've secured with many of the water clients, which gives us that durability and long-term visibility is really starting to ramp up now.

And even in the Middle East, we grew 5%, and I think we remain really positive about our long-term sort of market leadership there and we had some great wins despite the ongoing conflict and the sort of tempered growth in tourism. We're finding that we're getting real acceleration in growth in terms of the infrastructure segment.

We had a great large rail project win in KSA. So the various segments of international really contributed to a strong quarter and growing a momentum there. And I think with respect to the federal sort of outlook, I think Troy is going to take that.

Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

So first of all, Mike, our federal government, US federal government business represents about 9% of our overall revenues. So it is an important client. I will say this, I mean, look, everybody loves infrastructure. And I think that when you sort of look at the new Congress, we believe based on history that they do have a very strong commitment to infrastructure, and we believe that there should be bipartisan support for continued investment in infrastructure.

So we are positive on that. It's simply too early for us to have an opinion. I think we will find out more when the new Congress is in session, and we'll see the working relationship that develops with the current administration. But we are, again, we are positive. People are asking us a lot about the surface transportation bill and there is a short-term reauthorization.

And again, we have confidence that it will continue the exact form and duration of that, we don't know. But the one thing I will point out beyond the federal government is just the US elections were also positive for state and local investment in transportation infrastructure.

There are a whole number of voter approved ballot measures that are very significant and will provide funding for transportation projects at the state level. And we see that coming into, again, roads, bridges, a little bit of transit. And so we think that also provides support for what is an important part of our business, our state and local government clients.

Michael Dudas - *Vertical Research Partners LLC - Analyst*

Thank you, Lara. Thank you.

Operator

Kevin Wilson, Truist Securities.

Kevin Wilson - *Truist Securities - Analyst*

Hey, good morning. Calling on behalf of Jamie Cook. Thanks for taking my question. Just one for me. Sounds like growth in Advisory continues to be really strong. You mentioned one of the fastest growing areas of the company last year. How do you see that business continuing to evolve this year?

Maybe any more color on the aggressive hiring you mentioned and the impact to margins from that? Are you still on track to double the advisory business by next year? Thanks.

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Lara Poloni - *AECOM - President*

Thanks for the question, Kevin. It's Lara. We are absolutely on track to double that business by next year as we committed to. And you mentioned just the recruitment piece. We've been really excited and pleased with our progress in terms of just attracting talent. I think our proposition is really resonating with the talent that is coming across.

We have secured some very senior hires, not just in the US, but across all segments of our advisory business internationally as well. And those recruits are coming from other management consultants and big four, so the hiring is going really well. And most importantly, the proposition and the support from many of our long-term clients is really going well as well.

So I think we remain really excited about the prospects of advisory and very complementary to our sort of market leadership and all of the other verticals. So we're absolutely on track and excited for the future of this business.

Kevin Wilson - *Truist Securities - Analyst*

Appreciate the color. Thank you.

Lara Poloni - *AECOM - President*

Thank you.

Operator

There are no further questions at this time. I will now turn the call back to Troy Rudd for closing remarks.

Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

Thank you, operator and thank you everyone for joining the call today. We appreciate your support and interest. And I want to say thank you to all of the employees and folks across AECOM. This has been a long and this has been a tough year, and I thank them all for their commitment, and we do look forward to '27. And we think this is going to be a good year for infrastructure.

Operator

This concludes today's call. Thank you for attending. You may now disconnect.

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